FRONT BARNETT ASSOCIATES LLC
I N V E S T M E N T   C O U N S E L

Below is a transcript of the prepared remarks of Marshall B. Front who addressed the annual Mid-Year Economic Forecasting conference of the University of Chicago Graduate School of Business on Friday, May 17, 2002.

It's good to be back in Gleacher Center for another Mid-Year Economic Forecasting conference where all previous forecasts have been right on the mark.

While I have been asked to discuss investment strategy this afternoon, let me begin by briefly presenting our views on the economic outlook which, over the intermediate and long-term, will set the tone for equity investments.

Economic Outlook

Our firm's proprietary Economic Model (attached) which incorporates various measures of business and consumer sales, employment, housing activity, inflation, manufacturing and liquidity has been signaling an economic expansion since last fall. The Conference Board's Index of Leading Economic Indicators (LEI) confirms this view. We see little danger of a "double dip" in economic activity given the momentum we have experienced in retail sales, industrial production, consumer confidence, autos, housing and, more recently, exports. GDP for the first quarter of this year, initially reported to have advanced at a 5.8% rate, is likely to be revised upward to above 6% as additional data is processed. While this remarkable rate of recovery is expected to slow, we believe above-trend GDP growth of 3 ¾ to 4 ¼ % for the balance of this year is probable. The long awaited recovery in corporate profits began last quarter and should gain momentum as the year progresses. We forecast corporate profit growth of 15% this year and 20%+ in 2003. Barring an oil shock, inflation should remain a non-issue since corporations have little or no pricing power, the dollar is not likely to weaken significantly and cheaply priced raw materials will be available in ample supply. Unemployment, a lagging indicator, will probably rise further over the next few months as businesses defer hiring and instead ask existing staff to work longer hours and/or make use of temporary staffing until they are convinced this expansion has legs. The headline unemployment rate could reach 6 ¼%+ prior to leveling off this summer. Finally, with a benign inflationary environment and the

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unemployment rate still on the rise, the Federal Reserve will have no important incentive to raise rates sooner than at its September 24th or more probably, its November 6th meeting. All in all, then, we see a moderate recovery taking shape following a very mild, one quarter slowdown which probably would not have occurred absent the events and the aftermath of the September 11th terrorist attacks. Whether or not we actually experienced a recession as defined by the National Bureau of Economic Research remains to be seen.

The principal risks to this forecast are: (1) the consumer, whose spending represents two thirds of GDP and who has provided a powerful underpinning to the economy since 9/11, could run out of steam as the stimulative effects of last year's mortgage refinancings and tax cuts wind down, and; (2) a sharp rise in energy prices - - acting as a tax increase on consumers - - could dampen consumer outlays. While these risks appear unlikely, the economy needs employment growth and a turnaround in business capital spending to sustain its recovery. We are near a turn in employment. The recovery in capital expenditures will come later this year or early in 2003 as capacity utilization increases and businesses become convinced the profits recovery is sustainable.

Style Drift

I have also included in your handout a chart which at first glance might look like the periodic table we all studied in high school chemistry class or, possibly, a picture courtesy of the Museum of Contemporary Art. It is neither. It shows starting with calendar 1982 (at the left), the annual returns, ranked in order of performance, of 8 classes of assets with which you, as GSB alumni, are thoroughly familiar. This exhibit should confirm everything you instinctively know about "style drift" within the stock market.

- First, all investment styles inexorably migrate or "drift" from near or at the top of the chart to near or at the bottom in subsequent periods. Simply trace any one style through the 20+ years shown and you will quickly see what I mean. Clearly, hopping on to an investment style when it has been in favor for a while (i.e. small cap value in 1983 or 1993; large cap growth in 1998) has in the past, proven quite disappointing. The takeaway: avoid lurching from an underperforming style to an outperforming style;

- Second, the inset at the lower left demonstrates that, over the last 20 years, the four most widely owned styles of equity investment have

achieved strikingly similar compound annual returns of approximately 14% annually. The takeaway: diversify among styles, most importantly *growth* and *value*, and stick with that diversification;

- Third, the inset at the lower right shows that, as clients of our firm are well aware, *growth* and *value* continue to perform inversely. The takeaway: a blend of growth and value can provide more consistent results over a year or two than one style alone.

Investment Outlook

Over the past few months, in the absence of both a sustained pick up in the outlook for manufacturing activity and corporate profits, investors have instead focused on several disquieting issues including:

- the military and energy risks associated with a US led attack on Iraq;

- the possibility of widening violence in the Mideast;

- the near certainty of domestic and foreign terrorism, aimed at US interests;

- post-Enron related disclosures and findings (i.e. conflicts of interest in the financial services industry, earnings restatements, accounting profession woes, inflated utility and energy industry revenues, and credit downgrades of several major corporations under investigation).

In recent days, better than expected profits reports and revenue guidance from a number of companies (Wal-Mart, Applied Materials, Cisco, and National Semiconductor) have shifted investor attention from the *risks* of equity ownership to the *opportunities* ahead as business conditions improve. While these few reports may turn out to be only a flash in the pan, and anecdotal evidence we have been receiving of an up-tick in capital spending may be premature, we believe improving business conditions and strengthening profitability will evolve over the months ahead providing a more favorable backdrop for equity investing.
We have, therefore, over the past six months, fine-tuned portfolios to position them to more fully participate in the forthcoming economic upswing. Portfolio holdings of shares of companies whose profits are likely to accelerate as the expansion unfolds have been increased. These include media and broadcasting, energy,

retailing, electrical products and cash-rich, dominant technology companies. We see these groups, together with diversified financial companies and depressed pharmaceuticals as capable of delivering above average returns in the months ahead. Given my earlier observations regarding style drift, we favor emphasizing large cap over small cap and *growth* over *value* at this time. With regard to fixed income investment strategy, we have counseled clients to allow bond maturities to shorten in the expectation of both higher short and long term interest rates as the economy recovers. We now expect US Treasury bond yields to reach 6% before year-end. At this level, given our low inflation forecast, bonds would provide sufficient *real* rates of return to warrant extending maturities.

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MBF, May 17, 2002

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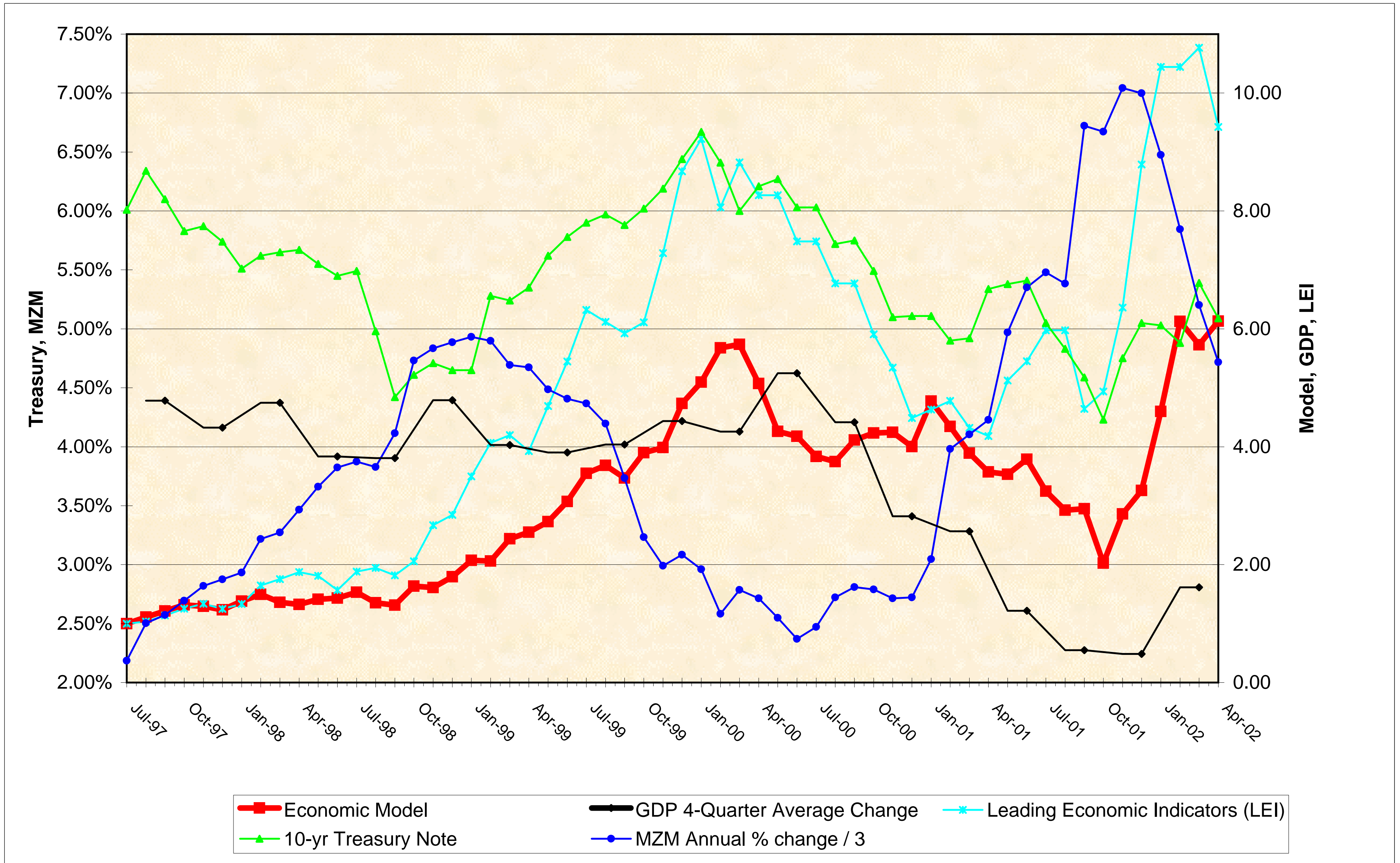
Front Barnett Associates LLC
Economic Model

5/21/2002



April 2002 Incomplete

Historical Returns Achieved by Various Asset Classes

Annual Returns Ranked in Order of Performance

1982	1983	1984	1985	1986	1987	1988
Fixed Income 32.62%	Small Cap Value 38.64%	Fixed Income 15.15%	Int'l 56.16%	Int'l 69.44%	Int'l 24.63%	Small Cap Value 29.47%
Small Cap Value 28.52%	Large Cap Value 28.89%	Large Cap Value 10.52%	Large Cap Growth 33.31%	Large Cap Value 21.67%	Large Cap Growth 6.50%	Int'l 28.27%
Large Cap Growth 22.03%	Int'l 23.69%	Cash 9.50%	Large Cap Core 31.73%	Large Cap Core 18.66%	Cash 5.40%	Large Cap Value 21.67%
Large Cap Core 21.55%	Large Cap Core 22.56%	Int'l 7.38%	Small Cap Value 31.01%	Fixed Income 15.26%	Large Cap Core 5.25%	Small Cap Growth 20.37%
Large Cap Value 21.04%	Small Cap Growth 20.13%	Large Cap Core 6.27%	Small Cap Growth 30.97%	Large Cap Growth 14.50%	Large Cap Value 3.68%	Large Cap Core 16.61%
Small Cap Growth 20.98%	Large Cap Growth 16.24%	Large Cap Growth 2.33%	Large Cap Value 29.68%	Small Cap Value 7.41%	Fixed Income 2.76%	Large Cap Growth 11.95%
Cash 10.70%	Cash 8.60%	Small Cap Value 2.27%	Fixed Income 22.10%	Cash 6.00%	Small Cap Value -7.11%	Fixed Income 7.89%
Int'l -1.86%	Fixed Income 8.36%	Small Cap Growth -15.83%	Cash 7.40%	Small Cap Growth 3.58%	Small Cap Growth -10.48%	Cash 6.50%

1989	1990	1991	1992	1993	1994	1995
Large Cap Growth 36.40%	Fixed Income 8.96%	Small Cap Growth 51.19%	Small Cap Value 29.14%	Int'l 32.56%	Int'l 7.78%	Large Cap Growth 38.13%
Large Cap Core 31.69%	Cash 7.40%	Small Cap Value 41.70%	Large Cap Value 10.53%	Small Cap Value 23.84%	Cash 4.10%	Large Cap Core 37.58%
Large Cap Value 26.13%	Large Cap Growth 0.20%	Large Cap Growth 38.37%	Small Cap Growth 7.77%	Large Cap Value 18.60%	Large Cap Growth 3.13%	Large Cap Value 37.00%
Small Cap Growth 20.17%	Large Cap Core -3.10%	Large Cap Core 30.47%	Large Cap Core 7.62%	Small Cap Growth 13.36%	Large Cap Core 1.32%	Small Cap Growth 31.04%
Fixed Income 14.53%	Large Cap Value -6.85%	Large Cap Value 22.56%	Fixed Income 7.40%	Large Cap Core 10.08%	Large Cap Value -0.63%	Small Cap Value 25.75%
Small Cap Value 12.43%	Small Cap Growth -17.41%	Fixed Income 16.00%	Large Cap Growth 5.07%	Fixed Income 9.75%	Small Cap Value -1.27%	Fixed Income 18.47%
Int'l 10.54%	Small Cap Value -21.77%	Int'l 12.13%	Cash 3.40%	Cash 2.90%	Small Cap Growth -2.43%	Int'l 11.21%
Cash 8.00%	Int'l -23.45%	Cash 5.30%	Int'l -12.17%	Large Cap Growth 1.68%	Fixed Income -2.92%	Cash 5.60%

1996	1997	1998	1999	2000	2001	1st Qtr. 02
Large Cap Growth 23.98%	Large Cap Growth 36.38%	Large Cap Growth 42.15%	Small Cap Growth 43.09%	Small Cap Value 22.83%	Small Cap Value 13.20%	Small Cap Value 9.07%
Large Cap Core 22.96%	Large Cap Core 33.36%	Large Cap Core 28.58%	Large Cap Growth 28.25%	Fixed Income 11.63%	Fixed Income 8.44%	Large Cap Value 1.33%
Large Cap Value 21.99%	Small Cap Value 31.78%	Int'l 20.00%	Int'l 26.96%	Large Cap Value 6.08%	Cash 4.46%	Cash 0.44%
Small Cap Value 21.37%	Large Cap Value 29.99%	Large Cap Value 14.68%	Large Cap Core 21.04%	Cash 6.00%	Small Cap Growth -9.30%	Large Cap Core 0.28%
Small Cap Growth 11.26%	Small Cap Growth 12.95%	Fixed Income 8.69%	Large Cap Value 12.72%	Large Cap Core -9.11%	Large Cap Core -11.76%	Fixed Income 0.09%
Int'l 6.05%	Fixed Income 9.65%	Cash 4.90%	Cash 4.80%	Int'l -14.17%	Large Cap Growth -13.96%	Int'l 0.06%
Cash 5.20%	Cash 5.20%	Small Cap Growth 1.23%	Fixed Income -0.82%	Large Cap Growth -22.08%	Large Cap Value -14.71%	Large Cap Growth -0.79%
Fixed Income 3.63%	Int'l 1.78%	Small Cap Value -6.45%	Small Cap Value -1.49%	Small Cap Growth -22.43%	Int'l -23.39%	Small Cap Growth -2.05%

Asset Class	Index	CAGR
Cash	90 Day Treasury Bills	5.78%
Fixed Income	Lehman Aggregate Index	10.08%
Small-Cap Value	Russell 2000 Value Index	14.46%
Small-Cap Growth	Russell 2000 Growth Index	8.22%
Large-Cap Value	S&P/BARRA Value Index	14.31%
Large-Cap Growth	S&P/BARRA Growth Index	13.97%
Large-Cap Core	S&P 500 Index	14.49%
Int'l	Morgan Stanley Capital Int'l EAFE Index	10.34%